Next10 Reports: Spotlight on IR35
Preparing for April 2020 Off Payroll Regulations Changes

The Intermediaries Legislation (IR35) was first implemented in 2000 to regulate those providing services via a limited company. The rules are aimed at so-called ‘disguised employees’ – people whose working practices are knowingly or unknowingly more akin to those of traditional employees.

New 'off-payroll' rules were implemented in April 2017 for contractors working for public sector organisations. Where originally, contractors themselves were responsible for determining their IR35 status, this obligation was then handed to the engager of each contractor, i.e. the client. These ‘off-payroll’ rules will be extended to private sector businesses from April 2020, impacting an estimated 900,000 UK-based limited company contractors.

With these changes afoot, Procorre surveyed over 500 contractors and 500 UK HR professionals to measure how ‘ready’ the respective parties are for April 2020 and where any misunderstandings or potential difficulties lie. This research is part of Procorre’s new ‘Next10’ initiative, which looks at the changing regulatory landscape, trends and future markets that will impact contractors and ways of working.
How ready are clients and contractors?

Since the announcement of the changes to IR35 what has happened?

- 50% Been difficult to concentrate on other important tasks
- 47% It has taken over my time
- 47% Drowning in paperwork because of IR35
- 23% Nothing has happened since the announcement of the changes to IR35

*respondents were able to select multiple responses.

Originally contractors themselves were responsible for determining their IR35 status, this obligation is now the responsibility of the engager of each contractor (the client business). However, both clients and contractors need to be ready for the changes to avoid losing access to valuable skills and client projects respectively.

Since the changes to IR35 regulations in the private sector were announced, nearly half (47%) of HR Managers said they’ve been ‘Drowning in Paperwork’. Fifty percent (50%) said they’ve found it difficult to concentrate on other tasks, and that planning for the changes has ‘taken over their time’ (47%).
With this in mind, the research reveals that there are a number of things that contractors are doing, which suggests they may not be as compliant as they think they are. Potentially adding to the administrative burden of the clients’ HR departments who must ensure compliance.

For example, even smaller things like using a client’s email address domain, which nearly three quarters of contractors do (72%) could fall foul of the new legislation.

Naturally, invoicing multiple clients throughout the tax year is more likely to help a contractor retain their career contractor status. However, when it came to surveying the scope and nature of contractors’ activities, Procorre found 57% work on a sole client contract at any one time, while one in ten said they hold management duties over employed staff.

If a contractor is also based within the office of one of its clients, then they are more likely to be considered an employee under the eyes of the new legislation.

Alarmingly, nearly a quarter of those surveyed (24%) work solely on site for their client, while 70% said that if they suddenly became unavailable, they wouldn’t be able to provide an alternate through their company.

To add to this, 65% said they don’t need approval for time off, but over half (53%) confirmed their client picks the days, hours and locations they work, despite their contractor status.

Over half (52%) of the contractors surveyed said they use equipment provided by their client. Although they cited cyber-security concerns as the reason, this is still a red flag.
How concerned are you about a potential drain on resources brought about by additional administrative tasks for IR35?

- Very concerned: 47%
- Somewhat concerned: 37%
- Not concerned: 16%

Impact on HR team

With many contractors falling foul of the right behaviours, it’s not surprising that the vast majority (84%) of HR professionals are worried about the drain on resources the administration will have on their team, as they look to get their house in order before April 2020.
Advice & Cost

Bearing in mind this level of concern felt within the HR profession, most are seeking advice from third party organisations and 27% of those surveyed are spending between £200,000 to £499,999 to prepare for the changes. In fact, over a third (36%) of medium-sized businesses with between 100 to 249 employees are spending this much on getting ready, increasing to almost half (48%) of those with between 250 to 499 employees investing this amount.

While 58% had sought guidance from the variety of sources outlined above, it’s concerning that around a third (32%) are yet to act and are ‘intending to seek advice’ – possibly exposing themselves to risk with the deadlines fast approaching.
Skill Shortages

Given that the changes to legislation could mean some contractors within the private sector find themselves liable for a higher tax bill, there are questions as to how this could be reflected in contractor rates or even availability of the necessary skills to fulfil future projects.

Over half of HR professionals (51%) think that contractors will definitely increase their rates after the changes and two thirds (66%) said it will be harder to recruit the necessary skills for their organisation.
In fact, sixty nine percent agreed that highly skilled contractors will be driven abroad to the advantage of their competitors overseas.

However, 37% of HR professionals strongly agreed that their ability to be agile will be impacted by the legislative changes, with a further 31% also somewhat concerned.
Conclusions:

Procorre's position on this is that there is no 'silver bullet'. It’s a case of taking a pragmatic, sensible approach, and for contractors and client businesses alike to be able to show they’re taking the right path.

In fact, those that embrace the changes can use it as an opportunity to review and improve business processes, which in turn will make them more attractive to the respective party who will also want to ensure they are operating within the guidelines.

Naturally, many contractors might fear a repeat of the public sector reforms in 2017. However, by being proactive and working with existing and potential clients to understand any impact ahead of April 2020, contractors will still have plenty of opportunity post the changes and client business will be able to recruit the necessary skills they require.

Procorre is working with contractors and clients in the private sector to ensure that the due diligence is in place for a smooth transition and the company encourages others in the industry to do the same. The contracting industry and the flexible workforce it’s made up of is still a major contributor to the economy, so Procorre is hopeful that any changes will be applied fairly.
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